

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Location:
Alaska State Museum
Lecture Hall
395 Whittier Street
Juneau, Alaska

June 19, 2019

ATTENDANCE

Committee Present: Robert Johnson, *chair*
Lorne Bretz
Gayle Harbo
Norman West

Committee Absent: None

Other Trustees Present: Bob Williams

Department of Revenue Staff Present:

Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Scott Jones (comptroller)
Kayla Wisner (deputy comptroller)
Grant Ficek (business analyst)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:

Kevin Worley (CFO, Division of Retirement & Benefits)

Others Present:

Stuart Goering (assistant attorney general, Department of Law) (phone)
Melissa Beedle (KPMG)
Lee Imlay (KPMG) (phone)

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the meeting to order at 9:02 a.m.

II. ROLL CALL

CHAIR JOHNSON, MR. BRETZ, MS. HARBO and MR. WEST were present at roll call.

III. PUBLIC MEETING NOTICE

Board liaison STEPHANIE ALEXANDER confirmed public meeting notice had been met.

IV. A. Approval of Agenda

MS. HARBO moved to approve the agenda. MR. WEST seconded the motion. The agenda was approved without objection.

B. Approval of Minutes - April 3, 2019

MS. HARBO moved to approve the minutes of the April 3, 2019. MR. WEST seconded the motion. The minutes were approved without objection.

**V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS,
AND APPEARANCES - None**

VI. A. Review Independent Auditors' Audit Plan

CHAIR JOHNSON introduced MELISSA BEEDLE, KPMG, who presented the State of Alaska Department of Revenue and Division of Retirement & Benefits Audit Plan and Strategy. MS. BEEDLE highlighted the client service team members. She noted BETH STUART, Lead Audit Engagement Partner, is in California today and will be available to meet the Committee at a future meeting. MS. BEEDLE reviewed the required communications for the scope of the audit of the financial statements for each of the nine areas:

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)
- Judicial Retirement System (JRS)
- National Guard and Naval Militia Retirement System (NGNMRS)
- Deferred Compensation Plan
- Supplemental Benefits System (SBS)
- Alaska Retirement Management Board Invested Assets
- Schedule of Employer Allocations prescribed by GASB 68 for each defined benefit pension plan
- Schedule of Employer Allocations prescribed by GASB 75 for each defined benefit other postemployment benefit (OPEB) plan

MS. BEEDLE informed internal controls are considered. However, KPMG does not issue an opinion regarding internal controls over financial reporting. Management override of controls is a significant risk inherent in every audit. One additional significant risk identified is the valuation of the alternative investments. A one to three-month lag period exists between when values are received and when they are posted for the year ending June 30th.

Other significant audit matters identified relate to:

- Valuation of the net pension liabilities and net other postemployment benefit liabilities, including employer census data
- Valuation of incurred but not reported (IBNR) claims for the health plans, and Present Value of Amounts Not Yet Due (PVANYD) related to the long-term care plan

MR. WEST inquired as to the process regarding IBNR claims. MS. BEEDLE explained the TPA provides a lag report showing all the claims from June 30th through the date requested in August or September. Those are then given to the State and the State undergoes a thorough process to determine if those claims are related to dates prior to June 30th. Additionally, historical trends are reviewed and assessed for reasonableness. MR. WEST expressed concern regarding the time and effort spent on IBNR claims and asked what percent of the claims are considered IBNR. MS. BEEDLE noted each system has a different amount of IBNR claims. She can provide the actual event information. Previous recent review of management's valuation has not produced any material errors and processes continue to be streamlined.

MS. HARBO noted the long-term care program and dental/vision are opt-in and self-paid selections for retirees. She requested additional information about the audit process for long-term care and dental/vision. MS. BEEDLE explained the long-term care is an annual audit included in the retiree health funds, which is not under the ARM Board.

MS. BEEDLE advised the determination of materiality is applied to each system and is based on factors such as professional judgment, historical knowledge, user priorities, size of the systems, and size of the assets.

CHAIR JOHNSON asked if a disconnect exists regarding the definition of materiality between KPMG and Division of Retirement & Benefits (DRB). MS. BEEDLE advised KPMG reviews the reports submitted by DRB and considers fraud, illegal activity, aggregation, or any breach in the normal processes of internal controls.

MS. BEEDLE informed specialists are involved in the audit, including an alternative investment valuation specialist to review the audit procedures and benchmarks, a firm actuary to review the ARMB actuary valuation reports, and a GASB specialist to assist with the implementation of GASB 67, 68, 74, and 75. KPMG conducts a final review of the allocation schedules at the national office. MS. BEEDLE reported there have been no new accounting pronouncements that will significantly impact the audit this year.

MS. BEEDLE showed the list of Audit Committee inquiries that are required by auditing standards. The inquiries normally are discussed during executive session and have been scheduled for the September meeting. MS. BEEDLE noted the planned deliverables and timeline will be highlighted during Agenda Item VI. B.

MS. BEEDLE reviewed the detailed list of responsibilities of Management, Audit Committee, and KPMG with respect to the financial statement audit.

CHAIR JOHNSON asked if there is a role for the auditor to make observations regarding the adequacy of cyber security protection. He also inquired if KPMG anticipates future GASB requirements to compel auditors to review cyber security. MS. BEEDLE informed interviews with IT personnel and management regarding cyber security processes are conducted during the course of the audit. She is unaware of any upcoming cyber security auditing or accounting standards.

B. Discussion of Audit Timeline

CHAIR JOHNSON introduced KEVIN WORLEY, CFO, DRB, and Comptroller SCOTT JONES to discuss the 2019 Retirement Systems Audit RFP and Timeline. Three proposals were reviewed by a six-person committee. An intent to award was issued on June 14th to KPMG for eight audits and eight schedules. The initial two-year contract begins July 1, 2019, and includes an optional three-year and five-year renewal, for a maximum contract of 10 years. The DRB and Treasury Division's audited financial statements have to be issued by October 15th, in order to meet the Division of Finance's statutory December 15th deadline for the State's comprehensive annual financial report.

MR. WORLEY noted the Audit Committee typically reviews the financial statements during a telephonic meeting in November prior to issuance. He expressed concern the accelerated deadline of October 15th will make it difficult to conduct a meeting prior to issuance because all of the information will not be compiled until very close to the October 15th deadline. He requested feedback from members on options and the possibility of foregoing such a meeting this year.

MR. WEST suggested the actuary provide members copies of the statements for review before the submittal to the Division of Finance. He suggested members could be polled a day or two before the submittal date to see if there are any issues to discuss during a teleconference meeting. MR. WEST noted it is normal process and the responsibility of an audit committee to review the statements before submittal to a third-party.

CHAIR JOHNSON concurred with the importance and the Audit Committee's responsibility to review the financial statements prior to submittal to the Division of Finance. He expressed concern regarding public notice requirements. CHAIR JOHNSON inquired as to the possibility of convening a short meeting within a day or two of the release of the financial statements. MR. WORLEY agreed such a meeting can be convened. CHAIR JOHNSON requested MR. WORLEY work with MS. ALEXANDER to schedule a date for that telephonic meeting.

C. GASB 68 and 75 Schedules

MR. WORLEY noted a packet of information has been provided to members. The schedules were issued at the end of April for FY19. The schedules were finalized ahead of previous years' completion. MR. WORLEY expressed appreciation to staff, Buck and KPMG for their efforts. The notifications have been released and the schedules are posted and available on the website.

CHAIR JOHNSON asked MS. BEEDLE for comments regarding the quality of the plans accounting principles. MS. BEEDLE informed the quality of the plans was reviewed and is comparably identical to the quality of retirement systems across the country.

MR. BRICE inquired as to who sets the mortality assumptions. MR. WORLEY advised the mortality assumptions used in the calculations are adopted by the Actuarial Committee.

MR. WILLIAMS requested an example of the scenario when a principle meets the criteria of acceptability, but does not meet the criteria for quality. MS. BEEDLE requested LEE IMLAY, Engagement Quality Control Reviewing Partner, KPMG, to respond. MR. IMLAY explained there could be instances of an implemented policy which is acceptable under generally accepted accounting principles (GAAP), but is not the most preferred way of accounting, during which instance KPMG would acknowledge that as an acceptable, but not preferred principle. It is KPMG's position the principles being used by the ARMB are both acceptable and the most preferred methods under GAAP.

D. Committee Requests: Areas of Interest/Review - None

E. Review Any Legal Matters That May Impact Fund's Financial Statements, The ARMB's Compliance With Applicable Laws And Regulations, And Any Inquiries Received From Regulators Or Governmental Agencies

CHAIR JOHNSON introduced STUART GOERING, ARMB Legal Counsel. MR. GOERING advised there are no updates on past reports regarding pending litigation. He will prepare a response to the audit letter that will be received later in the summer. No indication has been received noting ARMB is materially out of compliance with the applicable laws and regulations. No inquiries have been submitted from regulators or other governmental agencies.

F. DOR-Treasury

1. SOC 1 - Reporting on Controls at a Service Organization

CHAIR JOHNSON requested MR. JONES and PAMELA LEARY, Director, Treasury Division, provide the Treasury presentation. MR. JONES reviewed the memorandum dated May 28, 2019, regarding the Service Organization Controls (SOC 1) Report. Since the memo was written, the March 31, 2019 SOC reports have been received from State Street Bank indicating a clean opinion. The standard additional year-end work will be completed.

2. Accounting/Financial Personnel Succession [Org Chart]

MS. LEARY discussed the provided Treasury Division organizational chart. Staff position turnover has been stable during the year. There are two vacant positions in the portfolio group and two vacant positions in the accounting and support group. One of the vacant positions is an investment data analyst under Business Analyst GRANT FICEK, who reports directly to MR. JONES. The hope is to hire-in the vacant position in July. MS. LEARY complimented MR. FICEK for his work in the Division, including his efforts with the new budget system technology implemented last year and the performance system.

CHAIR JOHNSON inquired as to legislation related to personnel categories of exempt and partially exempt. MS. LEARY discussed the legislation concerning temporary exempt employees that passed. The final bill did not contain additional staffing requirements.

G. DOA – Division of Retirements & Benefits Personnel Structure [Organization Chart]

MR. WORLEY showed the provided DRB organization process structure and reviewed the Future State structure for FY20. A new manager position is being created under operation support that will focus on oversight and the ongoing modernization project of the combined retirement system replacement. The IT manager position and administrative services position are becoming separate reporting units. MR. WORLEY highlighted the new positions for the Division. The retirement/benefit manager would work directly for Chief Pension Officer and Deputy Director KATHY LEA. The addition of an Accountant V in the finance group will work with actuary, compliance, and financial statements. There are additional new positions not highlighted in yellow within the health team, that will assist with Employer Group Waiver Plans (EGWP) program. Some of the non-permanent positions have been created as permanent positions. The new positions will assist in the increased workload next fiscal year.

CHAIR JOHNSON asked if the interface issues relating to member benefits and member services are being addressed. MR. WORLEY informed many non-permanent positions have been filled. Three full-time positions have been approved, including reclassifications, and will begin to focus on higher level review work, including the backlog in certifications of retirement packets. This will enable the regional counselors to increase their primary function of community outreach and one-on-one member consultations.

H. Committee Performance-Self Assessment (per Charter)

CHAIR JOHNSON reiterated the Audit Committee's responsibility and role to review the upcoming financial reports prior to the October 15th submittal date.

I. Review Committee Charter and Action plan - None

J. Further Meeting Schedule

MS. ALEXANDER informed the future meeting schedule includes the November 15, 2019 meeting placeholder that has since been moved forward to the to-be-determined October meeting.

CHAIR JOHNSON informed a discussion, outside the presence of staff, needs to be scheduled before the regular September Committee meeting regarding the series of questions posed in the KPMG report

VII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None

VIII. PUBLIC / MEMBER COMMENTS - None

IX. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. WEST seconded the motion. The motion passed without objection.

The meeting was adjourned at 10:06 a.m.

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.